

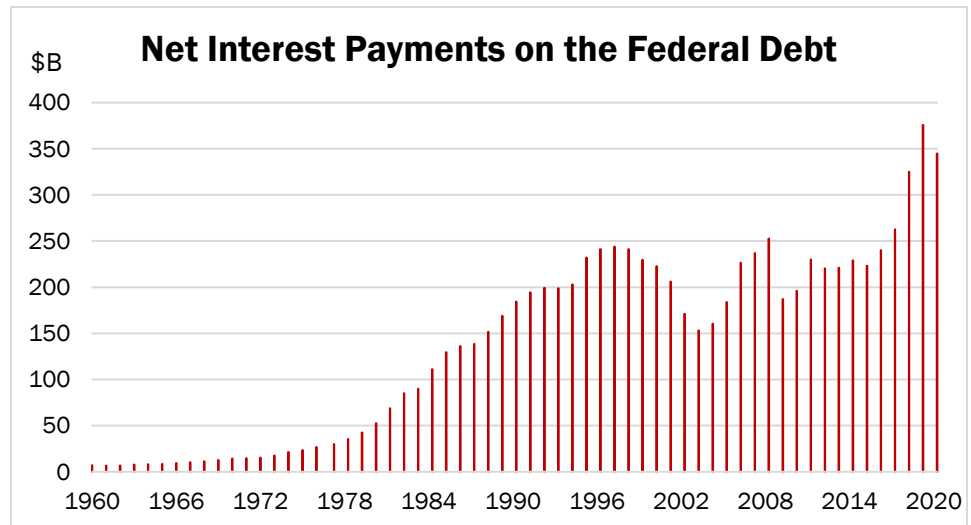


POLICY BRIEF

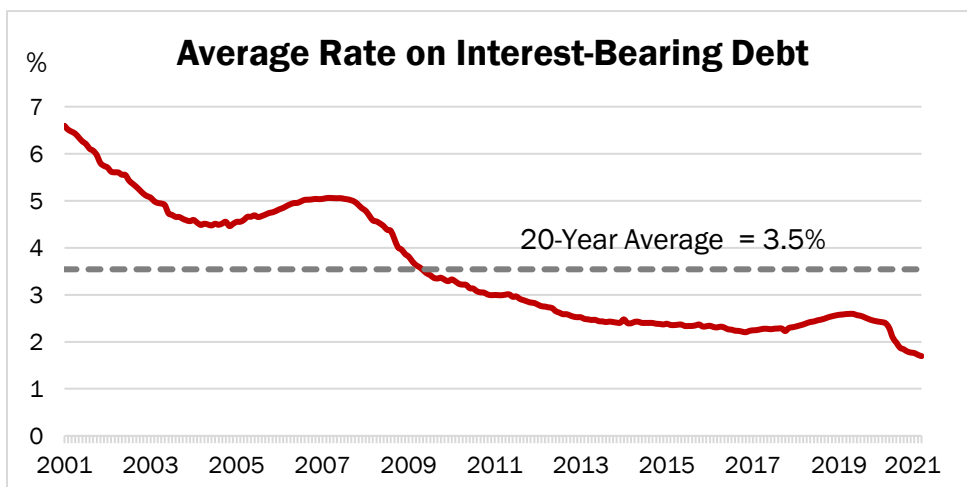


INTEREST ON THE DEBT

As of March 15, 2021, the U.S. gross national debt stood at \$28 trillion, \$4.5 trillion higher than it was the year before and the highest level in our nation's history.¹ In 2021 alone, the Congressional Budget Office (CBO) projects the federal government will spend \$303 billion just servicing our debt, amounting to roughly \$800 million per day in interest payments.² To put this in perspective, one day of interest payments could purchase 40 million COVID-19 vaccine doses (assuming \$20 per dose); two days of interest payments would cover the purchase cost of Major League Baseball's Seattle Mariners at \$1.6 billion; and less than two years of interest payments would amount to the total revenue of Walmart, the top Fortune 500 company in 2020.³ Even more troubling, if interest rates return to levels we have seen in recent history as we take on more debt, the amount of money we waste on just interest payments could approach \$1 trillion annually.



Source: U.S. Office of Management and Budget

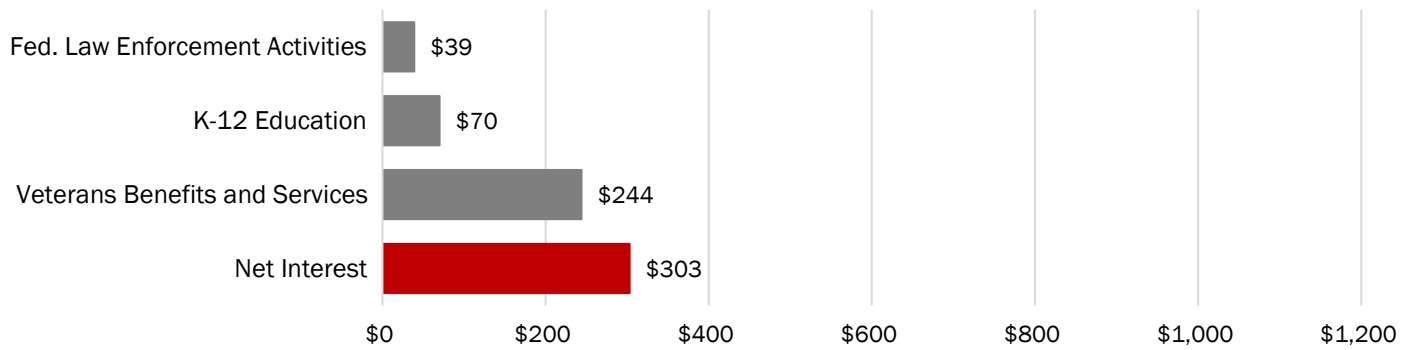


Source: U.S. Department of the Treasury

As the federal debt grows, we will be forced to spend more on interest payments than for Social Security benefit payments.⁴ While interest rates are currently low by historical standards, the sheer size of our debt has led to record interest payments.⁵ As shown below, if the Federal Reserve had to raise its interest rate target to combat rising inflation, the U.S. government could start spending more to service our debt than we do on Medicare, Medicaid, and more.

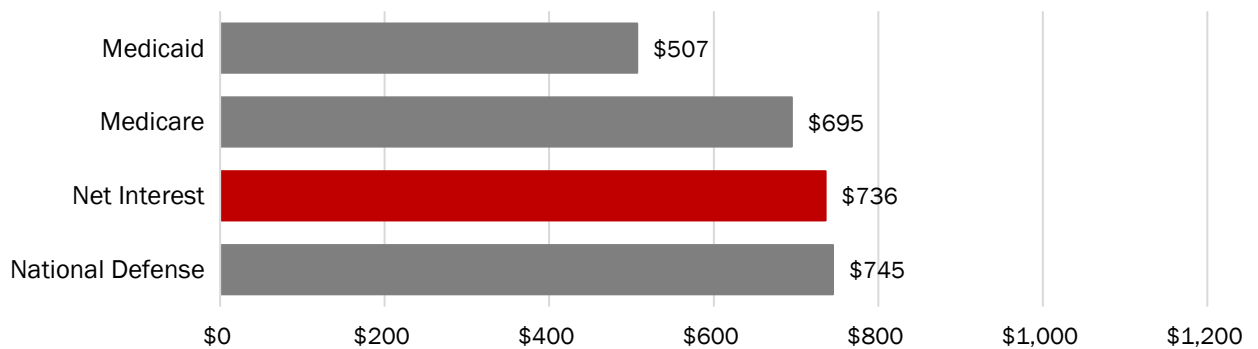
Interest Payments on the Debt at Current Rates

- Currently, the federal government is paying a rate of less than two percent to service the federal debt.⁶ Despite historically low rates, the federal government is projected to spend more in 2021 on net interest payments than on K-12 education, federal law enforcement activities, and veterans benefits and services, just to name a few.⁷ This interest amount is excluding the deficit impact from the \$1.9 trillion American Rescue Plan Act or any other major supplemental spending packages that Democrats may pass in 2021.



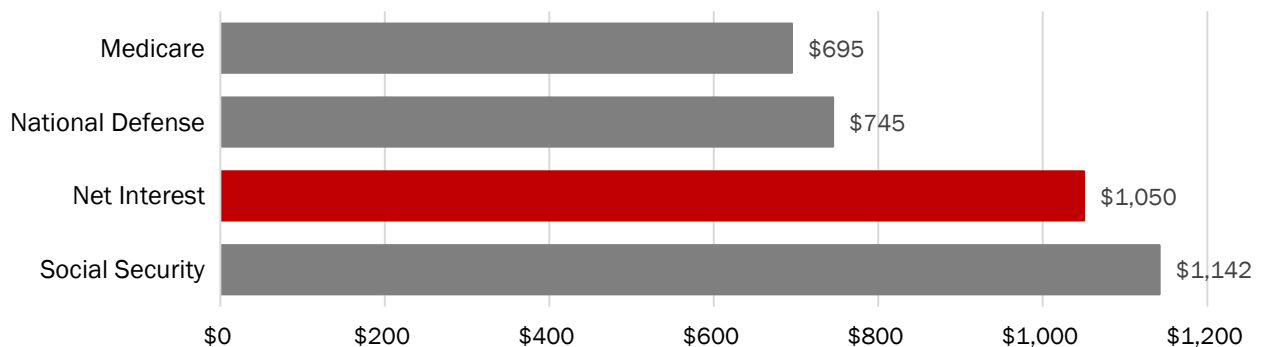
Interest Payments on the Debt at 3.5% Rate

- If interest rates rose to 3.5 percent, which is the 20-year average, the federal government would spend over \$700 billion servicing the debt, more than we are expected to spend on Medicaid or Medicare in 2021.⁸



Interest Payments on the Debt at 5% Rate

- While interest rates have been low by historical standards, if interest rates rose to 5 percent, where they were as recently as 2007, net interest payments on the debt level held by the public at the end of 2020 would be over \$1 trillion, more than the federal government spends annually on everything but Social Security.⁹



Clearly, a small increase in interest rates could quickly lead to debt service crowding out other important national priorities. Congress must take immediate action to address the federal debt as the COVID-19 crisis subsides, rather than continuing to increase the deficit to spend on unrelated political priorities. (*See also the RPC guide titled “Confront the Federal Debt.”*¹⁰).

¹ The Debt to the Penny and Who Holds It. TreasuryDirect. March 15, 2021.
https://www.treasurydirect.gov/govt/reports/pd/pd_debttotopenny.htm

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- ² Additional Information About the Budget Outlook: 2021 to 2031. Congressional Budget Office. March 5, 2021. <https://www.cbo.gov/system/files/2021-03/56996-budget-outlook.pdf> and The Fiscal & Economic Impact of the National Debt. Peter G. Peterson Foundation. March 23, 2021. <https://www.pgpf.org/the-fiscal-and-economic-challenge/fiscal-and-economic-impact>
- ³ <https://www.forbes.com/teams/seattle-mariners/?sh=711577127715> and <https://fortune.com/fortune500/>
- ⁴ The Fiscal & Economic Impact of the National Debt. Peter G. Peterson Foundation. March 23, 2021. <https://www.pgpf.org/the-fiscal-and-economic-challenge/fiscal-and-economic-impact>
- ⁵ U.S. Office of Management and Budget, Federal Outlays: Interest [FYOINT]. Retrieved from FRED, Federal Reserve Bank of St. Louis. March 25, 2021. <https://fred.stlouisfed.org/series/FYOINT>
- ⁶ U.S. Department of the Treasury. Average Interest Rates on U.S. Treasury Securities. March 25, 2021. <https://fiscaldata.treasury.gov/datasets/average-interest-rates-treasury-securities/average-interest-rates-on-u-s-treasury-securities>
- ⁷ The Budget and Economic Outlook: 2021 to 2031. Congressional Budget Office. February 11, 2021. <https://www.cbo.gov/system/files/2021-02/56970-Outlook.pdf> and Spending Projections, By Budget Account. Congressional Budget Office. February 2021. <https://www.cbo.gov/data/budget-economic-data#3>
- ⁸ Spending Projections, By Budget Account. Congressional Budget Office. February 2021. <https://www.cbo.gov/data/budget-economic-data#3>
- ⁹ Spending Projections, By Budget Account. Congressional Budget Office. February 2021. <https://www.cbo.gov/data/budget-economic-data#3>
- ¹⁰ <https://republicanpolicy.house.gov/sites/republicanpolicy.house.gov/files/documents/39%20-%20Confront%20the%20Federal%20Debt.pdf>